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SUBJECT: CYPRUS: INVESTMENT AGREEMENT WITH IRAN AND GOC GENERAL
INVESTMENT POLICY

(U) This cable is sensitive but unclassified. Please protect accordingly.

11. (SBU) Summary. On March 2, 2009, Cyprus and Iran signed an Agreement on the reciprocal promotion and protection of investments. The agreement was the outcome of a recent trade mission to Iran. It falls under the GOC's ongoing business outreach efforts towards "non-traditional" markets such as Russia, Eurasia, and the Middle East as part of the GOC's strategy to deal with the global financial crisis. Most observers have strong doubts as to the practical worth of this agreement for Cyprus: UN sanctions against Iran will probably block many initiatives; GOC bureaucracy in handling residency and employment permits will discourage others. End Summary.

Investment Agreement with Iran

12. (SBU) On March 2, 2009 Cyprus and Iran signed an Agreement on the reciprocal promotion and protection of investments. The text of the agreement (faxed to EUR/SE) is quite general, borrowing heavily from standard OECD "canned language" for such agreements. Ninos Savvides, Director of Coordination at the Planning Bureau who negotiated the Agreement, assured us that no special privileges were accorded Iran beyond those routinely provided to the many other countries with which Cyprus has similar agreements. Savvides also stressed that this agreement in no way lends itself to by-passing or circumventing existing UN sanctions against Iran. The agreement is applicable and enforceable only to the extent that it does not violate UN Security Council Resolutions against Iran, and/or any other standing legal obligations of Cyprus vis-`-vis the international community.

13. (U) The agreement was signed in Iran during an official visit by Minister of Commerce, Industry and Tourism Antonis Paschalides, who was leading a delegation of Cypriot businessmen. The delegation, comprising representatives from 30 Cypriot companies (18 of which are in real estate development) explored ways of promoting business and investment ties between the two countries. After the delegation's return to Cyprus, Paschalides announced that Iranian businessmen had expressed an interest in various activities in Cyprus including tourism, manufacturing (especially, to explore the prospect of establishing factories in the Larnaca Free Zone, whether in partnership with Cypriot businessmen or on their own - no particular industries specified), and real estate (particularly, in buying holiday homes in Cyprus).

14. (SBU) Paschalides also noted that the GOC is willing to grant residency permits to eligible Iranians buying property in Cyprus, provided their income originated from abroad, and that the purchase price of their residence in Cyprus exceeded a certain limit. The press has quoted this minimum limit as Euros 350,000 (apprx. USD 458,000) - although this figure has not been confirmed officially. This policy falls under a planned revision/review of existing Cypriot regulations concerning residency and employment applications

by foreign investors (from all non-EU countries, not just from Iran). The existing procedures are exceedingly arduous.

Cyprus' Business Outreach Strategy

15. (U) Cyprus' business outreach towards Iran falls under a more general GOC strategy to boost inward investment and tourism during this difficult period for the economy. The government, in cooperation with the Cyprus Chamber of Commerce and Industry, is organizing 27 trade missions to 18 countries. Trade missions to UAE, Bahrain, UK, Russia, Serbia, and twice to Iran have already taken place. Plans for the near future include trade missions to Denmark, Norway, Egypt, Switzerland, China, Russia, Romania, Germany, Kazakhstan, Czech Republic, Lebanon, Jordan, France, and Israel. Additionally, Cyprus intends to participate in 21 specialized exhibitions abroad, including the International Business Gateway in New York, and Medic Expo 2009 in Athens.

16. (U) Paschalides noted that Russia was a priority country for Cyprus during this business outreach effort. Chamber of Commerce President Mavrommatis also commented that he was confident that Russia, despite its problems, would be among the first countries to recover from the present crisis, thus helping neighboring countries as well. Other priority regions for Cyprus include the Middle East, and Eurasia (Ukraine, Belarus, Moldova, and Kazakhstan).

17. (SBU) Cyprus Chamber of Commerce and Industry officials have commented that, following a similar delegation to Iran last year, three Iranian companies already set up shop in Cyprus, using the island as a base for their international activities (basically, acting as holding companies for their EU operations). It has also been announced that on March 21, Iranian new year's day, around

1,000 Iranian tourists will visit Cyprus using chartered flights. The mayor of Larnaca will host a celebration and expects 2000-3000 Iranian guests (we suspect they will mostly be students from private universities on the island).

GOC General Investment Policy

18. (U) Since joining the EU in 2004, the GOC has lifted most investment restrictions concerning non-EU residents. Specifically, the GOC has eliminated most capital restrictions and limits on foreign equity participation or ownership, thereby granting national treatment to investors outside the EU. Non-EU investors (both natural and legal persons) may invest freely in Cyprus in most sectors, either directly or indirectly (including all types of portfolio investment in the Cyprus Stock Exchange). The only exceptions concern the acquisition of property and, to a lesser extent, ownership restrictions on investment in the sectors of tertiary education, mass media, banking and construction.

19. (U) There is no mandatory screening of foreign investment. Foreign investors can register a company directly at the Registrar of Companies through qualified accountants or lawyers, a procedure identical to that for local residents. Similarly, foreign investors may acquire shares in an existing Cypriot company directly, without previous authorization by the Central Bank. They are expected, however, to inform the Registrar of Companies about any change in ownership status.

110. (SBU) We have frequently discussed Iranian efforts to circumvent UN sanctions with Cypriot anti-money laundering officials. They have been extremely cooperative and quickly disseminate requested advisories to the Cypriot financial services community. That said, the possibility of front companies operating for Iranian interests is a distinct possibility.

Residency and Employment Permits

111. (U) Non-EU residents wishing to establish a company in Cyprus need to obtain a residence and employment permit from the Civil Registry and Migration Department. The process of applying for and obtaining such permits can be quite arduous. Even a simple

Temporary Residency application (without the right to work in Cyprus) requires a bank guarantee and a full medical insurance certificate, valid for one year, along with many forms that need to be filled out. Applying for an employment permit is considerably more complicated. It involves, for example, a requirement on the part of the employer to place an ad in local media, as well on EURES (the EU's seasonal employment portal) for the specific position. Only if there are no other applicants from Cyprus or the rest of the EU after six weeks can the GOC consider a non-EU applicant. Applying for permanent residency is more complicated still, requiring continued presence in Cyprus for over 10 years and many other requirements, including being over the age of 30 and having a clean police record. Such applications are reviewed on a case-by-case basis by an inter-agency committee, comprised of Ministry of Commerce, Ministry of Interior, Ministry of Labor and other officials.

¶12. (U) Exceptionally wealthy investors may apply to the GOC for permanent residency status, provided they meet the following criteria (approved in November 2007). These criteria are as follows for the various classes of applicants:

-- Direct investor applicants must have in Cyprus direct investments (e.g. real estate, factories) in excess of Euros 26 million.

-- Business applicants must have established in Cyprus companies with a total turnover of over Euros 86 million the year preceding the application.

-- Bank depositor applicants must have bank deposits in Cyprus in excess of Euros 17 million for a minimum five-year term.

-- Alternatively, over Euros 26 million invested in a combination of the above.

¶13. (SBU) The Commerce Minister has said that Iranians (and presumably other investors from non-EU nations) will be eligible for multi-year, multiple entry visas rather than the single entry visas which they now receive if they fulfill the necessary investment and income criteria. Our efforts to find someone in the Immigration Department who knew about the proposed revisions, or had even heard of such proposals, were unsuccessful. The 200 or so Iranians who currently own homes in Cyprus (mainly in and around Larnaca) typically receive only single entry visas.

¶14. (SBU) Comment. The investment agreement with Iran is unlikely to produce significant financial results any time soon, especially given the current limitations on doing business with Iran due to UN sanctions. Cyprus' existing and very complicated procedures for obtaining residency and employment permits will probably deter all but the most determined of applicants, despite the Commerce Minister's spin to potential Iranian customers looking to buy themselves a vacation house (or safe-haven) within the EU.

¶15. (SBU) Comment continued. The bilateral Agreement should be seen in the context of the Cypriot Government's effort to be seen by the electorate as dealing with the economic crisis as best it can, leaving no stone unturned. But perhaps more importantly, it is as an effort to further position Cyprus politically as a bridge between East and West. From the Iranian point of view, obtaining a visa for Cyprus has always been a difficult endeavor. End comment

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